

**VIRGINIA STATE BAR
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting systems of the Virginia State Bar;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

February 14, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

FINANCIAL HIGHLIGHTS

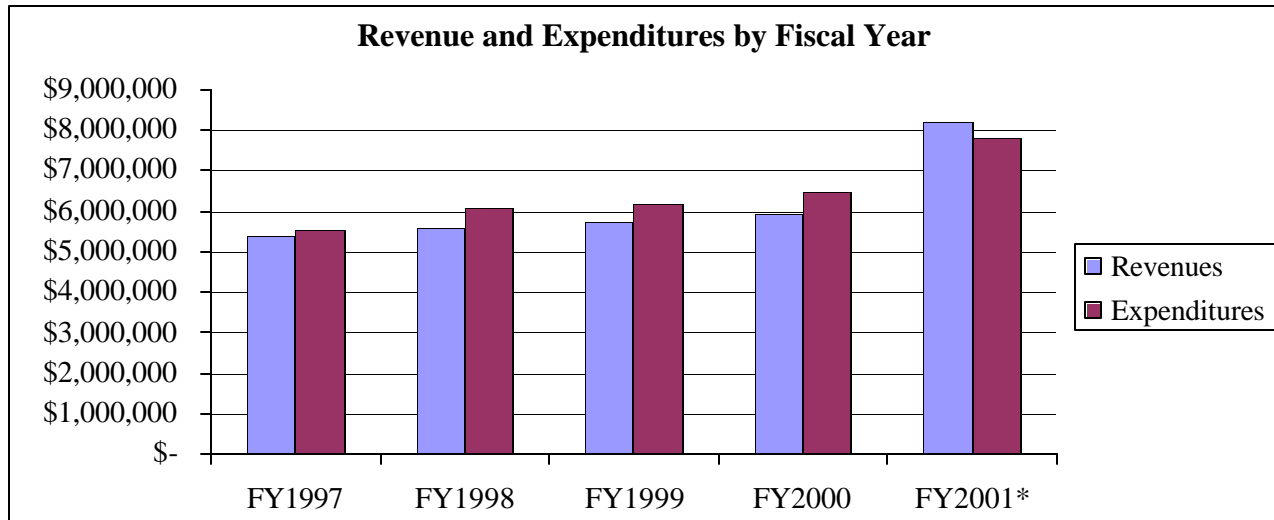
The **Virginia State Bar** is an administrative agency of the Supreme Court of Virginia and the 72 member Bar Council is the governing body. The Bar's primary mission is the regulation, improvement, and education of members of the legal profession. All persons practicing law in Virginia must be members of the Virginia State Bar. In addition to other responsibilities, the Bar initiates and prosecutes lawyer disciplinary actions. The Bar received approximately 3,377 complaints during the year and sanctioned 231 attorneys.

The Bar records most of its financial operating activities on the Commonwealth's Accounting and Reporting System (CARS) and maintains separate, internal records for the Administration and Finance Fund and the Clients' Protection Fund.

CARS Activity

For fiscal year 2000, revenue totaled \$6.0 million while expenses totaled \$6.6 million. Attorney registration fees accounted for \$4.38 million or 73 percent of total revenues. Other sources of revenue included referral fees, education program fees, section dues, and collection of back dues. Payroll accounted for \$4.16 million or 63 percent of operating expenses and remaining expenses are primarily contractual services.

Expenses over the last four years have exceeded revenue, causing the Bar to place operational reliance on its reserve. The reserve balance has reduced from approximately \$2 million in fiscal year 1997 to \$542,000 in fiscal year 2000. Over the last four years, membership has increased at a rate less than 5 percent annually; active and associate members totaled 27,626 in fiscal year 1997 and 30,901 in fiscal year 2000. In efforts to address the operational deficit, the Supreme Court of Virginia approved a dues increase from \$169 to \$250 for active members and from \$85 to \$125 for associate members. These increases were effective July 1, 2000.



* Projected for FY 2001

Administration and Finance Fund

The Administration and Finance Fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee and the Annual and Midyear Meetings, and other official functions of the State Bar. The Bar's annual and midyear meetings' registration fees generate the Administration and Finance Account's revenues and the Account pays for the meetings according to the rules of the Supreme Court. During fiscal year 2000, the Account received \$151,613 in meeting and registration fees, and paid \$111,216 in related expenses. As of June 30, 2000 the fund balance was \$183,393.

Clients' Protection Fund

The Virginia State Bar is the trustee for the Clients' Protection Fund that compensates clients for injuries or losses resulting from dishonest conduct of a Bar member. The fund was established with member contributions and budgetary transfers of member dues. Currently, the fund's main sources of revenue are interest on investments and reimbursements from attorneys for whom client settlements have been made. During fiscal year 2000, the Clients' Protection Fund collected \$147,624 in interest income and reimbursements from attorneys and disbursed \$73,546 in settlements. As of June 30, 2000, the Clients' Protection Fund had a fund balance of \$2,757,813.

Affiliated Parties

The Bar transfers court-collected legal aid filing fees and amounts appropriated from the General Fund of the Commonwealth to the Legal Services Corporation of Virginia to provide civil legal services for needy Virginians. Monthly, the Department of Accounts reviews Circuit Court deposits to determine the amounts available. Then, the Bar disburses this amount from a special revenue fund. During fiscal year 2000, the Bar transferred \$1.7 million from these court fees to the Legal Services Corporation. Additionally, the Bar received \$ 1.6 million in general fund appropriations that it also transferred to the Legal Services Corporation.

The Virginia State Bar maintains a close relationship with the Virginia Capital Representation Resource Center, a separately incorporated, not-for-profit corporation with its own board. The Center offers assistance or consultation to death-sentenced inmates and defendants charged with or convicted of a federal or

state capital crime in Virginia. The Virginia State Bar received \$470,000 in State appropriations that it transferred to the Center during fiscal year 2000.

The Bar has a close relationship with the Virginia Law Foundation. The Foundation is a separately incorporated, not-for-profit foundation with its own board and investment income from its endowment fund. The foundation collects, invests, and distributes moneys for charitable and educational programs that assist the public and aid in the public understanding of the legal profession. The Bar's Continuing Legal Education Committee directs the Foundation's continuing legal education activities. The Bar did not provide any financial assistance to the Foundation during the year.

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the Virginia State Bar for the year ended June 30, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System and in the Virginia State Bar's accounting records, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Bar's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Cash and other assets
Revenues and Cash Receipts
Expenditures, including Payroll

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Bar's internal controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may

become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Virginia State Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in the Virginia State Bar's internal accounting records. The Virginia State Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the Virginia State Bar's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 14, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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